

BASS, BERRY & SIMS PLC

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

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January 12, 2000

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

RE: Joint Petition of Crockett Telephone Company, Inc., Peoples Telephone Company, West Tennessee Telephone Company, Inc., and the Consumer Advocate Division of the Office of the Attorney General for the Approval and Implementation of Earnings Review Settlement

99-00995

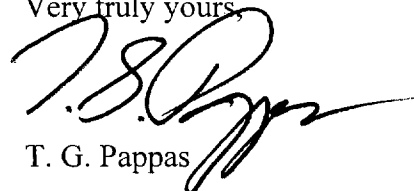
Dear Mr. Waddell:

Enclosed please find original and thirteen (13) copies of a Joint Petition by the three TEC Companies and the Consumer Advocate Division of the State Attorney General's Office for filing, seeking the Authority's approval and implementation of an earnings review settlement by the Authority.

We are also enclosing a check in the amount of \$25.00 made payable to the Authority for the filing fee in this matter.

With kindest regards, I remain

Very truly yours,


T. G. Pappas

TGP/br#2081122
Enclosures

FILE

Mr. David K. Waddell

January 12, 2000

Page 2

cc: Richard Collier, Esq.
L. Vincent Williams, Esq.
Vance L. Broemel, Esq.
Archie Hickerson
R. Terry Buckner
Val Sanford, Esq.
James P. Lamoureux, Esq.
Mr. Dwight S. Work
Mr. Gregory V. Eubanks
Mr. Tommy Ott
R. Dale Grimes, Esq.

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

**IN RE: JOINT PETITION OF CROCKETT)
TELEPHONE COMPANY, INC., PEOPLES ()
TELEPHONE COMPANY, WEST ()
TENNESSEE TELEPHONE COMPANY, ()
INC., AND THE CONSUMER ADVOCATE)
DIVISION OF THE OFFICE OF THE ()
ATTORNEY GENERAL FOR THE ()
APPROVAL AND IMPLEMENTATION ()
OF EARNINGS REVIEW SETTLEMENT)**

DOCKET NO. 00- 99-00995

JOINT PETITION

This Petition of Crockett Telephone Company, Inc., Peoples Telephone Company, and West Tennessee Telephone Company, Inc. (the "Companies") is filed as a Joint Petition with the Consumer Advocate Division of the Office of the Attorney General of the State of Tennessee ("CONAD"). The three companies are wholly-owned subsidiaries of Telephone Electronics Corporation, a privately owned company with its principal office in Jackson, Mississippi.

1. The Tennessee Regulatory Authority ("Authority") by order dated April 1, 1997, in Docket No. 96-00774 approved a settlement entered into by the three TEC Companies and the CONAD whereby earnings were to be reduced by \$4.95 million for the years 1996-1997 and 1998. The agreed projected fair rate of return upon which the overearnings were determined was 11.474% and was approved. The Authority then approved: (a) the manner in which the excess earnings would be disposed of as set out in the Agreement between the parties and included in the order of the Authority; and (b) the rates proposed by the parties in order to reduce revenues by \$4.95 million.

FILE

It directed the Company to file tariffs within fourteen (14) days to accomplish the reductions in earnings.

2. The Companies and CONAD in early summer of 1998 met to confer and consider the projected earnings for the three-year period 1999-2001. In this examination they examined how the disposition of the overearnings in Docket No. 96-00774 had been accomplished to determine if all the reductions, constructions, etc. had been completed for the period 1996-1998. It was agreed that all matters had been accomplished except for \$720,000 of earnings reduction for 1998 that were attributable to the delay in deployment of projected plant improvements for 1996-1998.

3. The staff of the Tennessee Regulatory Authority began an investigation in April of 1999, issuing a data request on April 8, 1999, to the TEC Companies seeking various financial and operating data. This information was furnished to the staff, and discussions have been had with the staff on various aspects of the review. Additional data requests were made later and an on-premise audit visit was conducted by the staff at the headquarters of the TEC Companies.

4. After all the investigations, consultations, etc., the Companies and CONAD have reached a Settlement Agreement. The Settlement Agreement (the "Agreement") was filed with the Authority by counsel on December 30, 1999, as directed by the Executive Secretary in his letter of December 6, 1999. A copy of the Agreement is attached hereto as Exhibit "A".

5. The Companies and CONAD reviewed available information and made forecasts of earnings for each of the three Companies for the years 1999, 2000 and 2001 on an individual basis. It was agreed that a fair rate of return on an individual company and a combined basis should be 9.909%. A copy of the Forecast of Earnings for 1999-2001 as agreed upon is attached as Exhibit "B".

6. As will be noted in the Agreement, the total amount of overearnings to be included in the proposed revenue adjustments is \$6,354,181. Of this amount, \$720,000 was to offset the delay in deployment of 1998 projected plant improvements mentioned in 2 above. The delayed plant improvements have all been completed. The proposed revenue adjustments and the amount of each adjustment for the three Companies for the years 1999, 2000, and 2001 and on a total basis was attached to the Settlement Agreement and is as follows:

TELEPHONE ELECTRONICS CORPORATION				
PROPOSED REVENUE ADJUSTMENTS				
1999-2001				
	WEST TENNESSEE TELEPHONE COMPANY, INC.	PEOPLES TELEPHONE COMPANY	CROCKETT TELEPHONE COMPANY, INC.	TOTALS
PROPOSED ADJUSTMENTS-1999				
Increase in Depreciation Expense-1999	\$ 312,570.00	\$ 171,926.00	\$ 101,584.00	\$ 586,080.00
Dialing Parity Impact- 3 Months	<u>55,877.37</u>	<u>74,815.52</u>	<u>30,872.09</u>	<u>161,564.98</u>
TOTAL PROPOSED ADJUSTMENTS-1999	\$ 368,447.37	\$ 246,741.52	132,456.09	\$ 747,644.98
PROPOSED ADJUSTMENTS-2000				
Increase in Depreciation Expense-2000	430,439.00	281,511.00	179,337.00	891,287.00
Waive Non-Recurring Charges during Forecast Period	62,950.00	46,587.50	58,882.50	168,420.00
Dialing Parity Impact	223,509.46	299,262.09	123,488.36	646,259.91
Eliminate Intracompany Toll; Access	20,335.44	1,189.56	-	21,525.00
Increase Contiguous County Plan to 180 Minutes @ 50 Percent Discount During Forecast Period	35,260.05	55,440.00	50,569.20	141,269.25
Credit for Business Access Lines (\$5.00 per line)	55,354.32	59,119.92	60,814.44	175,288.68
Credit for Residence Access Lines (\$4.75per line)	236,878.21	239,143.84	212,552.43	688,574.48
TOTAL PROPOSED ADJUSTMENTS-2000	\$ <u>1,064,726.48</u>	\$ <u>982,253.91</u>	\$ <u>685,643.93</u>	\$ <u>2,732,624.32</u>
TOTAL PROPOSED ADJUSTMENTS-2001				
Increase in Depreciation Expense-2001	461,958.00	289,422.00	238,361.00	989,741.00

	WEST TENNESSEE TELEPHONE COMPANY, INC.	PEOPLES TELEPHONE COMPANY	CROCKETT TELEPHONE COMPANY, INC.	TOTALS
Waive Non-Recurring Charges during Forecast Period	65,845.70	51,628.27	61,885.51	179,359.48
Dialing Parity Impact	223,509.46	299,262.09	123,488.36	646,259.91
Eliminate Intracompany Toll; Access	20,335.44	1,189.56	-	21,525.00
Increase Contiguous County Plan to 180 Minutes @ 50 Percent Discount During Forecast Period	35,260.05	55,440.00	50,569.20	141,269.25
Credit for Business Access Lines (\$5.00 per line)	57,788.64	62,635.46	61,105.14	181,529.24
Credit for Residence Access Lines (\$4.75 per line)	247,295.41	253,364.44	213,568.46	714,228.31
TOTAL PROPOSED ADJUSTMENTS-2001	<u>\$ 1,111,992.70</u>	<u>\$ 1,012,941.82</u>	<u>\$ 748,977.66</u>	<u>\$ 2,873,912.19</u>
TOTAL PROPOSED ADJUSTMENTS-1999- 2001	<u>\$ 2,545,166.54</u>	<u>\$ 2,241,937.26</u>	<u>\$ 1,567,077.68</u>	<u>\$ 6,354,181.48</u>

7. The negotiations between the Companies and CONAD have been primarily between Archie Hickerson, Director, Terry Buckner, Senior Regulatory Analyst, both with CONAD and Gregory Eubanks, Manager-Regulatory Operations, Tommy Ott, Vice President - Regulatory Operations, and Dwight Work of the accounting firm of Work & Greer, on behalf of the Companies. At times counsel for CONAD and the Companies have been present and assisted the reaching of a settlement between the parties. The agreement that was reached was filed with the Authority.

8. The parties would respectfully state that the settlement reached between the parties as set out in this Petition and the Exhibits thereto was negotiated in good faith, and that all parties have cooperated and furnished the required information that was relevant or which could be relevant, and that the joint recommendations are fair, just and reasonable and in the best interest of the customers served by the Companies. That the changes of customer rates by elimination of certain charges and reduction of certain rates and the credits to be given to customers on a monthly basis are

all fair, reasonable and will give the Companies an opportunity to earn a fair and reasonable rate of return and should be approved by the Authority.

PREMISES CONSIDERED, Petitioners pray:

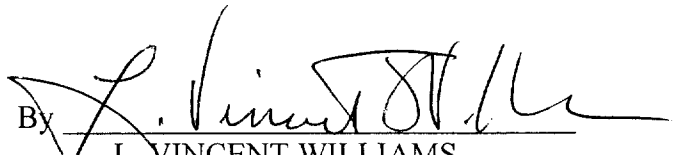
1. That the Authority consider this Petition and the Exhibits thereto and approve the settlement reached by the parties as being fair, just and reasonable.
2. That the Authority direct the Company to file tariffs to implement the reductions, credits and changes as set out in the Petition and Exhibits thereto.
3. That the Petitioners have such other and further relief as they might be entitled to in this cause.

Respectfully submitted,

CROCKETT TELEPHONE COMPANY,
INC., PEOPLES TELEPHONE
COMPANY, WEST TENNESSEE
TELEPHONE COMPANY, INC., (THE
COMPANIES)

By 
GREGORY EUBANKS
Manager- Regulatory Operations

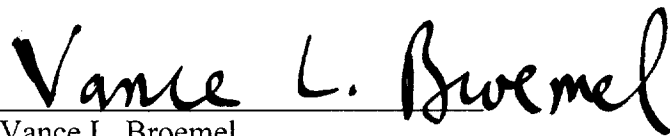
CONSUMER ADVOCATE DIVISION OF
THE OFFICE OF THE ATTORNEY
GENERAL, STATE OF TENNESSEE

By 
L. VINCENT WILLIAMS
Consumer Advocate



T. G. Pappas
R. Dale Grimes
BASS, BERRY & SIMS PLC
2700 First American Center
Nashville, TN 37238

Attorney for Telephone Electronics
Corporation Companies



Vance L. Broemel
Consumer Advocate Division
Office of the Attorney General
426 5th Avenue, No.
Cordell Hull Bldg. (Basement Level)
Nashville, TN 37243-0500

Attorney for the Consumer Advocate
Division of the Office of the Attorney
General, State of Tennessee



REG'S TN
REGULATORY AUTH.

'99 DEC 30 PM 1 32

CLERK OF THE
EXECUTIVE SECRETARY

December 28, 1999

Mr. Vincent Williams
State of Tennessee
Office of the Attorney General
426 Fifth Avenue North
Nashville, Tennessee 37243-0485

RE: Earnings Investigation for Years 1999-2001

Dear Mr. Williams:

On December 20, 1999 Telephone Electronics Corporation and the Consumer Advocate Division of the Office of the Attorney General met to discuss the results of an earnings analysis for the years 1999-2001. During the meeting it was agreed that:

1. We agreed as to the projected financial information for the years 1999-2001 and that the overearnings for the three Tennessee Operating companies is \$6,354,181.
2. Any reduction in earnings as a result of the projected financial information would be effective for the years 1999-2001.
3. It was agreed that \$720,000 of the 6.355 million was to offset the miss in earnings during the previous review period that was the result of the delay in deployment of projected plant improvements.
4. If Telephone Electronics Corporation decides to apply for a Tennessee Code Ann. § 65-5-209 price regulation plan prior to the end of 2002, Telephone Electronics Corporation shall request the Authority to institute a contested, evidentiary proceeding to set initial rates. If Alternative Regulation is applied for during 2000-2001 the company understands it would be subject to another audit at that time.

Telephone Electronics Corporation and the Consumer Advocate have agreed that Peoples, Crockett and West Tennessee Telephone Companies will have excess earnings of \$5.7 million. Since rate base is reduced by \$2.467 million in the disposition of earnings as a result of increased depreciation and amortization expense, it was determined that an additional reduction in earnings of \$655,000 would need to be made.

Telephone Electronics Corporation agrees to reduce earnings by making the following adjustments during the review period 1999-2001. See Summary of Proposed Revenue Adjustments by company.

1999 Adjustments

1999
Earnings Reduction

1. Increase in Depreciation and Amortization Expense	\$ 586,080
2. Impact of Dialing Parity-3 Months	<u>161,565</u>
Total Adjustments 1999	<u>\$ 747,645</u>

EXHIBIT "A"

T E L E P H O N E
E L E C T R O N I C S
C O R P O R A T I O N
B O X 2 2 9 2 3
J A C K S O N M S 3 9 2 2 5
2 3 6 E A S T C A P I T O L S T
F A X 6 0 1 3 5 5 1 9 6 4
6 0 1 3 5 4 9 0 7 0

Mr. Vince Williams
 December 28, 1999
 Page 2 of 3

<u>2000 Adjustments</u>	<u>2000 Earnings Reduction</u>
1. Increase in Depreciation and Amortization Expense	\$ 891,287
2. Waive Non-Recurring Charges during Forecast Period	168,420
3. Impact of Dialing Parity	646,260
4. Elimination of Intracompany Toll	21,525
5. Increase Contiguous County Calling Plan to 180 Minutes @ 50 Percent Discount During Forecast Period 2000 through 2001	141,269
6. Monthly Credit of \$5.00 per Business Access Line	175,289
7. Monthly Credit of \$4.75 per Residence Access Line	<u>688,574</u>
Total Adjustments 2000	<u>\$2,732,624</u>

<u>2001 Adjustments</u>	<u>2001 Earnings Reduction</u>
1. Increase in Depreciation and Amortization Expense	\$ 989,741
2. Waive Non-Recurring Charges during Forecast Period	179,360
3. Impact of Dialing Parity	646,260
4. Elimination of Intracompany Toll	21,525
5. Increase Contiguous County Calling Plan to 180 Minutes @ 50 Percent Discount During Forecast Period 2000 through 2001	141,269
6. Monthly Credit of \$5.00 per Business Access Line	181,529
7. Monthly Credit of \$4.75 per Residence Access Line	<u>714,228</u>
Total Adjustments 2001	<u>\$ 2,873,912</u>
TOTAL ADJUSTMENTS 1999-2001	<u>\$ 6,354,181</u>

In prior years Telephone Electronics Corporation has capitalized software costs associated with the digital switches. The Companies have also capitalized subsequent software upgrades to the digital switches. The Companies have agreed with the Consumer Advocate that a special account be established for software upgrades and that these costs be amortized over an accelerated or expedited period.

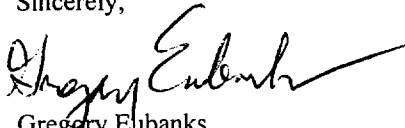
Telephone Electronics Corporation and the Consumer Advocate considered many, many alternatives. If at any time during the review period the Authority or any court modifies the revenue structure, the Consumer Advocate agrees with Telephone Electronics Corporation that appropriate adjustments should be considered.

Mr. Vince Williams
December 28, 1999
Page 3 of 3

For the period January 1, 2000 through 2001 TEC will give each user of contiguous county calling a minimum credit of 5.5 cents per minute for calls in the plan up to 180 minutes for those carriers which TEC does the end user billing. This credit would remain at a minimum of 5.5 cents even if there are toll reductions during the review period.

We believe this letter accurately summarizes the significant terms of our settlement. If you have any questions, please call me at (601)-354-9070. If you agree with our understanding of the settlement, please sign the enclosed copy and return to me for my files.

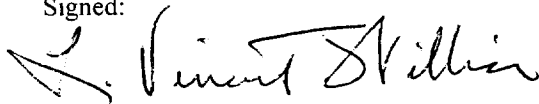
Sincerely,


Gregory Eubanks
Director-Regulatory Accounting

RESPONSE:

This letter correctly sets forth the understanding of the Consumer Advocate.

Signed:


Date: December 30, 1999

Cc: Mr. Robert Healea
Mr. Tom Ott
Mr. T. G. Pappas
Mr. Jim Wingo
Mr. Dwight Work

TELEPHONE ELECTRONICS CORPORATION
PROPOSED REVENUE ADJUSTMENTS
1999-2001

	WEST TENNESSEE TELEPHONE COMPANY	PEOPLES TELEPHONE COMPANY	CROCKETT TELEPHONE COMPANY	TOTALS
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TOTAL PROPOSED ADJUSTMENTS-2001	\$ 1,111,992.70	\$ 1,012,941.82	\$ 748,977.66	\$ 2,873,912.19
TOTAL PROPOSED ADJUSTMENTS-1999-2001	\$ 2,545,166.54	\$ 2,241,937.26	\$ 1,567,077.68	\$ 6,354,181.48

TELEPHONE ELECTRONICS CORPORATION
Forecast of Earnings for 1999-2001

Line No.		<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Total</u>
	Revenues:				
1	Local	\$ 2,258,183	\$ 2,368,167	\$ 2,664,236	\$ 7,290,586
2	Access	7,643,009	7,784,551	8,031,431	23,458,991
3	Toll	97,613	100,699	103,898	302,210
4	Miscellaneous	195,857	201,762	208,942	606,561
5	Uncollectible	(10,051)	(10,385)	(10,731)	(31,167)
6	Total Revenues	\$ 10,184,611	\$ 10,444,794	\$ 10,997,776	\$ 31,627,181
	Expenses:				
7	Plant Specific	\$ 1,023,361	\$ 1,063,698	\$ 1,105,661	\$ 3,192,720
8	Plant Non-Specific	797,977	830,141	863,628	2,491,746
9	Customer Operations	1,643,482	1,708,567	1,776,283	5,128,332
10	Corporate Operations	1,039,282	1,080,343	1,123,061	3,242,686
11	Depreciation Expense	1,425,467	1,769,197	1,845,653	5,040,317
12	Other Operating Taxes	348,690	523,683	536,966	1,409,339
13	Operating Income Taxes	1,364,572	1,160,374	1,262,038	3,786,984
14	Total Expenses	\$ 7,642,831	\$ 8,136,003	\$ 8,513,290	\$ 24,292,124
15	Net Operating Income	\$2,541,780	\$2,308,791	\$2,484,486	\$ 7,335,057
	Adjustments:				
16	Inside Wiring NOI	(\$8,331)	\$ (9,402)	\$ (10,274)	\$ (28,007)
17	Other, Net	4,349	4,565	4,791	13,705
18	IDC	-	-	-	0
19	Parent Tax Savings	-	-	-	0
20	Int. on Cust. Deposits	(1,595)	(1,683)	(1,782)	(5,060)
21	Total Adjustments	(\$5,577)	(\$6,520)	(\$7,265)	\$ (19,362)
22	Adjusted NOI	\$ 2,536,203	\$ 2,302,271	\$ 2,477,221	\$ 7,315,695
23	Rate Base	\$ 13,212,194	\$ 15,212,149	\$ 14,851,622	\$ 43,275,965
24	Rate of Return	19.20%	15.13%	16.68%	16.90%
25	Fair Rate of Return	9.909%	9.909%	9.909%	9.909%
26	NOI Surplus	\$1,295,163	\$791,300	\$940,920	\$ 3,027,383
27	Retention Factor	60.7732%	60.8273%	60.8065%	60.7977%
28	Revenue Surplus	\$2,131,142	\$1,300,896	\$1,547,400	\$ 4,979,438
29	Delayed Construction Revenue Requirement	\$ 720,562	\$ -	\$ -	\$ 720,562
30	Revenue Excess	\$2,851,704	\$1,300,896	\$1,547,400	\$ 5,700,000
31	Revenue Requirement of Rate Base Effect of Increased Depreciation				\$ 654,181
32	Total Revenue Excess				\$ 6,354,181

EXHIBIT "B"

CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing Joint Petition has been served on the following counsel for A.T.& T. Communications of the South Central States, this th 12 day of January, 2000:

Val Sanford, Esq.
Gullett, Sanford, Robinson & Martin, PLLC
230 Fourth Avenue, North
Third Floor
P. O. Box 198888
Nashville, TN 37219-888

James P. Lamoureux, Esq.
A.T.&T.
Room 4068
1200 Peachtree Street, NE
Atlanta, GA 30309


T. G. Pappas